Financial Capability Reviews

Dale Newton

Senior Functional Advisor-Pricing

Agenda

Financial Capability Reviews are performed for several reasons.

This presentation provides an overview of things to consider when performing these reviews.

The financial capability of a

- Pre-Award Surveys
- Post-Award Surveys
- Contractor Alert List (CAL)
- Novation Agreements

Pre-Award Surveys

Several things should be considered before the review is started.

1. **Prior Reviews . Do we need updated information?**

2. **How Much Money is required to finance the anticipated contract?**

Prior Reviews

- **If there is sufficient data on file which is current , the review can be started immediately.**
- **If current data is not on file, a letter should be sent to the company requesting the most current data available. This data includes the most current interim balance sheet and profit/loss statement. Also, the balance sheet and profit/loss statement for the previous two completed fiscal years. The appropriate certifications should be**

How Much Money Is Required?

Things To Consider

- **Type Of Contract (FP, CPFF, ID/IQ, etc.)**
- **Delivery Schedule. Are there incremental deliveries or is there one large delivery? This can be determined by reviewing the solicitation. Also, the technical reviewer should be aware of the delivery schedule as a part of his review.**

Sources of Financing

1. **Working Capital**
2. **Banks / Investors**

Working Capital

Current Assets

Less: Current Liabilit

Equals = Working Capita

Balance Sheet

ASSETS

Current Assets:

Checking / Savings Account
Cash on Hand
Accounts Receivable
Inventories
Work in Process
Prepaid Expenses

Fixed Assets:

Land
Buildings
Less: Accumulated Depreciation
Machinery and Equipment
Less: Accumulated Depreciation

Balance Sheet

LIABILITIES

Current Liabilities:

Accounts Payable

Notes Payable

Long Term Liabilities:

Mortgage

Balance Sheet

NET WORTH

Common Stock
Retained Earnings

Balance Sheet

ASSETS = LIABILITIES + NET W

Ratios

1. **Current Assets / Current Liabilit**
   2:1 is considered g
2. **Quick Ratio : (C A less: Inventor**
   1:1 is considered
3. **Total Liabilities / Net Worth :**
   Some companies operate wi
   amounts of debt. Ratio can

Technical Default

All Liabilities are classified as current. As a result, poor ratio

This occurs usually because ce terms of the loan are not being

Analyst should review the facts

Bankruptcy

- **Not Good**
- **Chapter 11, Bankruptcy - Reorganization Plan appr by the Court. A final decr the judge ends bankrupt**
- **All Liabilities are classified a current. As a result, poor ratios**
- **Chapter 7, Bankruptcy - Disposition of Assets**

Bank / Investor Commitment Letter

Legal Wording indicating that they will loan money to company specifically for the anticipated contract if necessary. Also, letter specifies that contract award may rely on this commitment.

Subordination Agreements

Agreement signed by the creditors of a company which states that they are willing to change their rights to payments in order to help the company finance the contract. They subordinate their rights to the government.

Progress Payments / Public Vouchers

- Fixed Price / Cost Type Contracts
- Acceptable Accounting System
- Based on costs incurred

Cash Flow Analysis

The company should be asked for a cash
lysis in situations where a large contrac
contemplated and there is a concern
at they don’t have the necessary financi

Cash Flow Analysis

he cash flow analysis should be on a mo
month basis for the period of performan
he anticipated contract. Also, the analy
hould reflect the anticipated contract. T
analysis reflects cash receipts and
disbursements.

Cash Flow Analysis

**The review of the cash flow analysis
o determine the reasonableness of t
ctions. This is done by comparing th
eipts to sales, new loans, etc. and ca
disbursements to purchases, payroll
ating expenses,etc. This information
the profit / loss statement.**

Dun & Bradstreet Report

Valuable Source Of Information:

- **Background on company**
- **Credit Rating**
- **History of Payments to Suppliers**
- **UCC Filings, Liens, Judgments, Bankruptcy**

Talk To Bank

Determine the Overall Relationship

- **The company should make the referral to the bank and the person to talk with. If they don't, you may not get any information.**
- **Discuss account balances, loan balances, lines of credit, how payments are made on**

Final Recommendation

Look At All The Facts

- **Is there adequate Working Capital ?**
- **Are loans available if needed ?**
- **What are the risks to the government and should another supplier be considered ?**
- **Discuss your thoughts with other personnel working on the technical aspects. Also, discuss**

Post Award Reviews

- **Associated with contracts in process that are receiving progress payments.**
- **Request for review may be initiated by the ACO. However, a Price Analyst can initiate a review or do a follow-up review on his own recognizance.**
- **The same information**

Contractor Alert List (CAL)

- **One of the criteria for placement on the CAL is the financial condition of a company. The criteria indicates that if a company <u>would or did</u> have a negative pre-award review based on their financial condition there is a basis for placement on the CAL.**
  (editorial note 8/02- now RAMP- not CAL)
- **This determination requires judgment since we do not**

Novations

- **There are numerous mergers / re-organizations / acquisitions / etc. that require novations to contracts. Prior to the novation, financial statements are required to be submitted to the government.**
- **A determination as to the financial capability of the new organization should be made.**
- **The data already discussed in pre-awards, post awards**

Final Thoughts

- **Gather all the facts that you can get. There may be unique circumstances.**
- **Discuss your thoughts especially if you are dealing with a company having financial problems and you may have to write a negative report.**
- **In writing your report, reflect the facts. Be careful, do not report on unsubstantiated matters. They can be embarrassing and are**